

**REPORT OF THE AUDIT OF THE
CARTER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE CARTER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Carter County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances decreased by \$3,904,549 from the beginning of the year, resulting in a cash surplus of \$2,757,139 as of June 30, 2002. The decrease in fund balances is attributed to the expenditure of \$3,936,731 of bond proceeds received in the prior fiscal year. These bond proceeds were used for Detention Facility construction costs.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$6,105,000. Future collections of \$12,044,179 are needed over the next 30 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$64,843 as of June 30, 2002. Future principal and interest payments of \$68,357 are needed to meet these obligations.

Report Comments:

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Expenditures of Federal Awards
- All Employees Should Maintain Timesheets

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Carter County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Carter County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Carter County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions as of June 30, 2002, of Carter County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Alice Joy Binion, Carter County Judge/Executive
Members of the Carter County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2002, on our consideration of Carter County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Carter County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- Lacks Adequate Segregation Of Duties
- The Fiscal Court Should Adopt A Written Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Expenditures Of Federal Awards
- All Employees Should Maintain Timesheets

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2002

CARTER COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

| | |
|--------------------|------------------------|
| Alice Joy Binion | County Judge/Executive |
| Deborah Carper | Magistrate |
| Jack C. Dinkens | Magistrate |
| Lonnie E. Sturgill | Magistrate |
| William M. Webb | Magistrate |
| Carlos R. Wells | Magistrate |

Other Elected Officials:

| | |
|-------------------|----------------------------------|
| Michael B. Fox | County Attorney |
| Randall K. Binion | Jailer |
| Hugh R. McDavid | County Clerk |
| Larry Thompson | Circuit Court Clerk |
| Kevin McDavid | Sheriff |
| Charles Kiser | Property Valuation Administrator |
| George A. Sparks | Coroner |

Appointed Personnel:

| | |
|-------------------|------------------|
| Glenna J. Wallace | County Treasurer |
|-------------------|------------------|

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

CARTER COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

| | Governmental Fund Types | | | Totals (Memorandum Only) Primary Government |
|--|----------------------------|-------------------------|----------------------------|--|
| | General | Special Revenue | Capital Projects | |
| <u>Assets and Other Resources</u> | | | | |
| <u>Assets</u> | | | | |
| Cash and Cash Equivalents | \$ 1,721,718 | \$ 10,729 | \$ 542,214 | \$ 2,274,661 |
| Investments | | | 482,478 | 482,478 |
| Restricted Cash- | | | | |
| Payroll Revolving Account | 46 | | | 46 |
| Health Insurance Account | 2,369 | | | 2,369 |
| Total Assets | <u>\$ 1,724,133</u> | <u>\$ 10,729</u> | <u>\$ 1,024,692</u> | <u>\$ 2,759,554</u> |
| <u>Other Resources</u> | | | | |
| Amounts to be Provided in Future Years for: | | | | |
| Capital Lease | \$ 64,843 | \$ | \$ | \$ 64,843 |
| Bond Payments | | | 6,105,000 | 6,105,000 |
| Total Other Resources | <u>\$ 64,843</u> | <u>\$</u> | <u>\$ 6,105,000</u> | <u>\$ 6,169,843</u> |
| Total Assets and Other Resources | <u><u>\$ 1,788,976</u></u> | <u><u>\$ 10,729</u></u> | <u><u>\$ 7,129,692</u></u> | <u><u>\$ 8,929,397</u></u> |

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

| | Governmental Fund Types | | | Totals (Memorandum Only) Primary Government |
|--|-------------------------|--------------------|---------------------|--|
| | General | Special Revenue | Capital Projects | |
| <u>Liabilities and Equity</u> | | | | |
| <u>Liabilities</u> | | | | |
| Payroll Revolving Account | \$ 46 | \$ | \$ | \$ 46 |
| Health Insurance Account | 2,369 | | | 2,369 |
| Capital Lease (Note 5) | 64,843 | | | 64,843 |
| Bond Principal - Series 2001 (Note 4) | | | 6,105,000 | 6,105,000 |
| Total Liabilities | \$ 67,258 | \$ | \$ 6,105,000 | \$ 6,172,258 |
| <u>Equity</u> | | | | |
| Fund Balances: Unreserved | \$ 1,721,718 | \$ 10,729 | \$ 1,024,692 | \$ 2,757,139 |
| Total Equity | \$ 1,721,718 | \$ 10,729 | \$ 1,024,692 | \$ 2,757,139 |
| Total Liabilities and Equity | \$ 1,788,976 | \$ 10,729 | \$ 7,129,692 | \$ 8,929,397 |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

CARTER COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

| | General Fund Types | | | |
|---|--------------------------------|---------------------|----------------------------|-------------------|
| | Totals (Memorandum Only) | General Fund | Road and Bridge Fund | Jail Fund |
| <u>Cash Receipts</u> | | | | |
| Schedule of Operating Revenue | \$ 4,553,386 | \$ 1,699,455 | \$ 1,125,187 | \$ 163,714 |
| Other Financing Sources: | | | | |
| Transfers In | 275,000 | | 275,000 | |
| Borrowed Money | 999,000 | | | |
| Total Cash Receipts | <u>\$ 5,827,386</u> | <u>\$ 1,699,455</u> | <u>\$ 1,400,187</u> | <u>\$ 163,714</u> |
| <u>Cash Disbursements</u> | | | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | \$ 8,110,012 | \$ 932,579 | \$ 1,425,464 | \$ 450,393 |
| Other Financing Uses: | | | | |
| Schedule of Justice Center Corporation | | | | |
| Fund Expenditures | 1,004,340 | | | |
| Transfers Out | 275,000 | 275,000 | | |
| Bonds: | | | | |
| Interest Paid | 297,223 | | | |
| Capital Lease Agreement - Principal | 45,360 | | 45,360 | |
| Total Cash Disbursements | <u>\$ 9,731,935</u> | <u>\$ 1,207,579</u> | <u>\$ 1,470,824</u> | <u>\$ 450,393</u> |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | \$ (3,904,549) | \$ 491,876 | \$ (70,637) | \$ (286,679) |
| Cash Balance - July 1, 2001* | <u>6,661,688</u> | <u>536,712</u> | <u>138,734</u> | <u>426,981</u> |
| Cash Balance - June 30, 2002* | <u>\$ 2,757,139</u> | <u>\$ 1,028,588</u> | <u>\$ 68,097</u> | <u>\$ 140,302</u> |

*Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

| General Fund Types | | | | Special Revenue Fund Types | |
|---|-------------------------|--|---|---|------------------|
| Local Government Economic Assistance Fund | Enhanced 911 Fund | 1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund | Governor's Surplus Spending Fund | Community Development Block Grant Fund | Forestry Fund |
| \$ 233,268 | \$ 214,026 | \$ 1,486 | \$ 235 | \$ 777,883 | \$ 4,188 |
| <u>\$ 233,268</u> | <u>\$ 214,026</u> | <u>\$ 1,486</u> | <u>\$ 235</u> | <u>\$ 777,883</u> | <u>\$ 4,188</u> |
| \$ 412,271 | \$ 171,235 | \$ | \$ | \$ 777,883 | \$ 3,456 |
| <u>\$ 412,271</u> | <u>\$ 171,235</u> | <u>\$</u> | <u>\$</u> | <u>\$ 777,883</u> | <u>\$ 3,456</u> |
| \$ (179,003) 438,855 | \$ 42,791 108,026 | \$ 1,486 61,597 | \$ 235 10,744 | \$ 2 | \$ 732 9,995 |
| <u>\$ 259,852</u> | <u>\$ 150,817</u> | <u>\$ 63,083</u> | <u>\$ 10,979</u> | <u>\$ 2</u> | <u>\$ 10,727</u> |

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

| | <u>Capital Projects Fund Types</u> | |
|---|--|--|
| | <u>Detention Facility Project Fund</u> | <u>Justice Center Corporation Fund</u> |
| <u>Cash Receipts</u> | | |
| Schedule of Operating Revenue | \$ 327,644 | \$ 6,300 |
| Other Financing Sources: | | |
| Transfers In | | |
| Borrowed Money | | 999,000 |
| Total Cash Receipts | <u>\$ 327,644</u> | <u>\$ 1,005,300</u> |
| <u>Cash Disbursements</u> | | |
| Comparative Schedule of Final Budget and Budgeted Expenditures | \$ 3,936,731 | \$ |
| Other Financing Uses: | | |
| Schedule of Justice Center Corporation Fund Expenditures | | 1,004,340 |
| Transfers Out | | |
| Bonds: | | |
| Interest Paid | 297,223 | |
| Capital Lease Agreement - Principal | | |
| Total Cash Disbursements | <u>\$ 4,233,954</u> | <u>\$ 1,004,340</u> |
| Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements | \$ (3,906,310) | \$ 960 |
| Cash Balance - July 1, 2001* | <u>4,930,042</u> | |
| Cash Balance - June 30, 2002* | <u><u>\$ 1,023,732</u></u> | <u><u>\$ 960</u></u> |

* Cash Balance Includes Investments

The accompanying notes are an integral part of the financial statements.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Carter County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Carter County Justice Center Corporation as part of the reporting entity.

The Carter County Justice Center Corporation (the Corporation) is a legally separate entity established to provide long-term debt service to the Fiscal Court for the construction of a justice center facility. A majority of the Corporation's governing body is appointed by the Carter County Judge/Executive. Further, the Carter County Fiscal Court can significantly influence the Corporation's operations. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the Fiscal Court.

Additional - Carter County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Carter County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Carter County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

CARTER COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Carter County General Fund Type includes the following county fund: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), Enhanced 911 Fund, 1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund, and the Governor's Surplus Spending Fund.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Carter County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund and Forestry Fund.

3) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Detention Facility Project Fund and the Justice Center Corporation Fund of the Fiscal Court are reported as Capital Projects Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Carter County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Carter County Justice Center Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Ambulance Service is considered to be a related organization of the Carter County Fiscal Court.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Jointly Governed Organization

A jointly governed organization is an entity that results from a multigovernmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt

A. Carter County Detention Facility General Obligation Improvement Bonds

On May 1, 2001, the Carter County Fiscal Court issued \$6,105,000 of General Obligation Improvement bonds for financing the construction of the Carter County Detention Facility. The bonds require semiannual interest and principal payments to be made on May 1 and November 1 of each year. The interest payments commence on November 1, 2001, and the principal payments commence on May 1, 2003. As of June 30, 2002, the principal amount outstanding was \$6,105,000. Bond payments for the remaining years were:

| Fiscal Year Ended June 30 | Scheduled Interest | Scheduled Principal |
|------------------------------|-----------------------|------------------------|
| 2003 | \$ 297,222 | \$ 65,000 |
| 2004 | 294,818 | 75,000 |
| 2005 | 292,043 | 85,000 |
| 2006 | 288,812 | 105,000 |
| 2007 | 284,718 | 110,000 |
| 2008-2012 | 1,349,925 | 645,000 |
| 2013-2017 | 1,191,927 | 810,000 |
| 2018-2022 | 974,420 | 1,040,000 |
| 2023-2027 | 678,294 | 1,370,000 |
| 2028-2032 | 287,000 | 1,800,000 |
| Totals | <u>\$ 5,939,179</u> | <u>\$ 6,105,000</u> |

B. Carter County Justice Center Corporation First Mortgage Revenue Bonds

On August 1, 2001, the Carter County Justice Center Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center and obtaining office rental space for the AOC at the Justice Center. Subsequently, on July 1, 2002, the Carter County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Carter County Justice Center.

The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under the terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowances payment as provided in the lease. The lease agreement is renewable each year. The Carter County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use allowance payments in order to meet the debt service for the bonds.

CARTER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

B. Carter County Justice Center Corporation First Mortgage Revenue Bonds (Continued)

The use allowance payments commence with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payments in each successive biennial budget period until March 1, 2022, but the lease does not legally obligate the AOC to do so.

No debt service requirement schedule is presented for the First Mortgage Revenue Bonds because the bonds were not issued until the subsequent fiscal year.

Note 5. Capital Leases

- A. On November 5, 1996, the Carter County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation for the purchase of road equipment. The agreement required monthly payments of \$1,094 for 60 months. The final lease payment was made in August 2001.
- B. On February 20, 1999, the Carter County Fiscal Court entered into a lease agreement with Caterpillar Financial Services Corporation for the purchase of road equipment. The agreement requires monthly payments of \$3,598. As of June 30, 2002, the principal balance was \$64,843. Lease payments for the remaining years are:

| <u>Fiscal Year Ended</u> <u>June 30</u> | <u>Scheduled</u> <u>Interest</u> | <u>Scheduled</u> <u>Principal</u> |
|--|-------------------------------------|--------------------------------------|
| 2003 | \$ 2,985 | \$ 40,187 |
| 2004 | <u>529</u> | <u>24,656</u> |
| Totals | <u>\$ 3,514</u> | <u>\$ 64,843</u> |

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

CARTER COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

| <u>Budgeted Funds</u> | <u>Budgeted Operating Revenue</u> | <u>Actual Operating Revenue</u> | <u>Over (Under) Budget</u> |
|--|---|---|------------------------------------|
| <u>General Fund Type</u> | | | |
| General Fund | \$ 1,356,458 | \$ 1,699,455 | \$ 342,997 |
| Road and Bridge Fund | 1,038,614 | 1,125,187 | 86,573 |
| Jail Fund | 361,715 | 163,714 | (198,001) |
| Local Government Economic Assistance Fund | 205,390 | 233,268 | 27,878 |
| Enhanced 911 Fund | 206,000 | 214,026 | 8,026 |
| 1979 Kentucky Residential Mortgage Revenue Bond Defeasance Fund | | 1,486 | 1,486 |
| Governor's Surplus Spending Fund | 6,662 | 235 | (6,427) |
| <u>Special Revenue Fund Type</u> | | | |
| Community Development Block Grant Fund | 3,677,776 | 777,883 | (2,899,893) |
| Forestry Fund | | 4,188 | 4,188 |
| <u>Capital Projects Fund Type</u> | | | |
| Detention Facility Project Fund | <u>4,404,000</u> | <u>327,644</u> | <u>(4,076,356)</u> |
| Totals | <u>\$ 11,256,615</u> | <u>\$ 4,547,086</u> | <u>\$ (6,709,529)</u> |
| <u>Reconciliation</u> | | | |
| Total Budgeted Operating Revenue Above | | | \$ 11,256,615 |
| Add: Budgeted Prior Year Surplus | | | 1,230,547 |
| Less: Other Financing Uses | | | <u>(45,400)</u> |
| Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures | | | <u>\$ 12,441,762</u> |

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SCHEDULE OF OPERATING REVENUE

CARTER COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

| Revenue Categories | GOVERNMENTAL FUND TYPES | | | |
|----------------------------|--------------------------------|----------------------|---------------------------------|----------------------------------|
| | Totals (Memorandum Only) | General Fund Type | Special Revenue Fund Type | Capital Projects Fund Type |
| Taxes | \$ 1,273,336 | \$ 1,269,148 | \$ 4,188 | \$ |
| In Lieu Tax Payments | 22,277 | 22,277 | | |
| Excess Fees | 110,810 | 110,810 | | |
| Licenses and Permits | 22,615 | 22,615 | | |
| Intergovernmental Revenues | 2,723,793 | 1,732,910 | 777,883 | 213,000 |
| Charges for Services | 91,907 | 91,907 | | |
| Miscellaneous Revenues | 145,081 | 143,362 | | 1,719 |
| Interest Earned | 163,567 | 44,342 | | 119,225 |
| Total Operating Revenue | <u>\$ 4,553,386</u> | <u>\$ 3,437,371</u> | <u>\$ 782,071</u> | <u>\$ 333,944</u> |

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

CARTER COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

| Expenditure Categories | GENERAL FUND TYPES | | |
|--|---------------------|--------------------------|---------------------------|
| | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 816,448 | \$ 662,394 | \$ 154,054 |
| Protection to Persons and Property | 919,244 | 771,082 | 148,162 |
| General Health and Sanitation | 152,345 | 141,615 | 10,730 |
| Social Services | 500 | | 500 |
| Roads | 1,430,222 | 1,399,837 | 30,385 |
| Debt Service | 23,000 | | 23,000 |
| Capital Projects | 326,662 | | 326,662 |
| Administration | 556,497 | 417,014 | 139,483 |
| Total Operating Budget - General Fund Type | \$ 4,224,918 | \$ 3,391,942 | \$ 832,976 |
| Other Financing Uses: | | | |
| Capital Lease Agreement- Principal on Lease | 45,400 | 45,360 | 40 |
| TOTAL BUDGET - GENERAL FUND TYPE | <u>\$ 4,270,318</u> | <u>\$ 3,437,302</u> | <u>\$ 833,016</u> |

CARTER COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

| SPECIAL REVENUE FUND TYPE | | | |
|--|---------------------|--------------------------|---------------------------|
| Expenditure Categories | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| General Government | \$ 67,391 | \$ | \$ 67,391 |
| Protection to Persons and Property | 111,227 | 3,456 | 107,771 |
| General Health and Sanitation | 2,342,906 | 689,883 | 1,653,023 |
| Recreation and Culture | 88,000 | 88,000 | |
| Capital Projects | 1,202,120 | | 1,202,120 |
| TOTAL BUDGET - SPECIAL REVENUE FUND TYPE | \$ 3,811,644 | \$ 781,339 | \$ 3,030,305 |
| CAPITAL PROJECTS FUND TYPE | | | |
| Expenditure Categories | Final Budget | Budgeted Expenditures | Under (Over) Budget |
| Capital Projects | \$ 4,405,200 | \$ 3,936,731 | \$ 468,469 |
| Total Operating Budget - Capital Projects Fund Type | \$ 4,405,200 | \$ 3,936,731 | \$ 468,469 |
| Other Financing Uses: | | | |
| General Obligation Improvement Bonds | | | |
| Interest Payment | | 297,223 | (297,223) |
| TOTAL BUDGET - CAPITAL PROJECTS FUND TYPE | \$ 4,405,200 | \$ 4,233,954 | \$ 171,246 |

SCHEDULE OF JUSTICE CENTER CORPORATION FUND EXPENDITURES

CARTER COUNTY
SCHEDULE OF JUSTICE CENTER CORPORATION FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

| <u>Expenditure Items</u> | <u>Amount</u> |
|--------------------------|---------------------|
| Land Purchase | \$ 470,000 |
| Construction Costs | 500,960 |
| Interest Paid | 10,344 |
| Miscellaneous | 40 |
| Administrative Fees | <u>22,996</u> |
| Total | <u>\$ 1,004,340</u> |

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Carter County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 21, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Carter County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- The Fiscal Court Should Adopt A Written Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Expenditures Of Federal Awards
- All Employees Should Maintain Timesheets

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Carter County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Carter County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. A reportable condition is described in the accompanying schedule of findings and questioned costs.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Alice Joy Binion, Carter County Judge/Executive

Members of the Carter County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Carter County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Carter County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Carter County's management. Our responsibility is to express an opinion on Carter County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Carter County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Carter County's compliance with those requirements.

In our opinion, Carter County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Carter County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Carter County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 21, 2002

FINDINGS AND QUESTIONED COSTS

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Carter County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is not reported as a material weaknesses.
3. Three instances of noncompliance material to the financial statements of Carter County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Carter County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Carter County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Carter County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

1. Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks a proper segregation of duties. There is a limited staff size which prevents adequate division of responsibilities. The Treasurer has statutory authority to assume the role as custodian of monetary assets, as well as recorder of transactions and preparer of financial statements. We recommend the following compensating controls be implemented to offset this internal control weakness:

- The fiscal court should hire an assistant to perform part of the record keeping duties.
- The fiscal court should have the payroll prepared or calculated by another employee.
- The fiscal court should have the bank reconciliations prepared by an employee who has no access to cash or accounting records.

County Treasurer Glenna Wallace's Response:

We have hired extra help to do payroll, but she does not do bank reconciliations.

CARTER COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Fiscal Year Ended June 30, 2002
 (Continued)

NONCOMPLIANCES

1. The Fiscal Court Should Adopt A Written Investment Policy

The fiscal court has not adopted a written investment policy to govern the investment of public funds. KRS 66.480(3) requires fiscal courts to have adopted, by January 1, 1995, a written investment policy. It is important to adopt a written investment policy to assure the safety and security of public funds. KRS 66.480(3) lists specific information that the written investment policy should include. We recommend the fiscal court adopt a written investment policy per KRS 66.480(3). If needed, the fiscal court should request the County Attorney assist in developing a written investment policy.

County Judge/Executive Alice Joy Binion's Response:

We have requested assistance of the County Attorney to help prepare an investment policy.

2. The Fiscal Court Should Maintain A Schedule Of Expenditures Of Federal Awards

The fiscal court did not maintain a Schedule of Expenditures of Federal Awards. The fiscal court is required to prepare and maintain a Schedule of Expenditures of Federal Awards. This schedule should be started at the beginning of the fiscal year and updated each time there are grant expenditures. The Schedule of Expenditures of Federal Awards is used to determine if the fiscal court is required to have a Single Audit and should contain the following information:

Name of Federal Program

CFDA #

Pass-Through Grantor's Number if applicable or Grant Number

Expenditures for Fiscal Year

County Treasurer Glenna Wallace's Response:

We will work to maintain this schedule.

3. All Employees Should Maintain Timesheets

During our review of payroll, we found that the Road Supervisor does not maintain timesheets. According to the county's administrative code, each employee shall maintain a timesheet to be submitted to the finance officer. The timesheet is kept for payroll verification and used for a leave record and is required by Wage and Hour laws. We recommend all employees maintain a signed timesheet to document hours worked and leave used.

County Judge/Executive Alice Joy Binion's Response:

Road Supervisor has agreed to start doing time sheets.

CARTER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

- The Fiscal Court Should Adopt A Written Investment Policy
- The Fiscal Court Should Maintain A Schedule Of Federal Financial Assistance

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CARTER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

| Federal Grantor Program Title <u>Grant Name (CFDA #)</u> | <u>Pass-Through Grantor's Number</u> | <u>Expenditures</u> |
|--|--|--------------------------|
| Cash Programs: | | |
| U.S. Department of Housing and <u>Urban Development</u> | | |
| Passed-Through State Department for Local Government: | | |
| Community Development Block Grant- Rattlesnake Ridge Water Expansion Project (CFDA #14.228) | B-99-DC-21-0001(064) | \$ 318,815 |
| <u>U. S. Federal Emergency Management Agency</u> | | |
| Passed-Through State Department of Military Affairs: | | |
| Disaster and Emergency Assistance Grants- March 2002 Flood Relief (CFDA #83.503) | FEMA-1407-DR-KY | <u>155,845</u> |
| Total Cash Expenditures of Federal Awards | | <u><u>\$ 474,660</u></u> |

CARTER COUNTY
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - As required by the Community Development Block Grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
CARTER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Carter County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Carter County Judge/Executive



Carter County Treasurer

